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Report of the Joint Advisory Group on the International Trade Center UNCTAD/GATT on its twenty-sixth session

Note by UNCTAD secretariat

The twenty-sixth session of the Joint Advisory Group on the International Trade Centre UNCTAD/GATT, was held from 8 - 11 November 1993. The report on the session will be before the Board in document ITC/AG/(XXVI)/139 and Addendum 1.

Attention is drawn to the annotation to item 8(a) of the Board's provisional agenda (TD/B/40(2)/1).

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UNCTAD'S CONTRIBUTION TO THE IMPLEMENTATION OF THE UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s: INVESTMENT PROMOTION, FOREIGN DIRECT INVESTMENT, TRANSFER OF TECHNOLOGY

Report of the Secretary-General of UNCTAD

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I. INTRODUCTION

A. The New Agenda for Africa

1. The United Nations New Agenda for the Development of Africa in the 1990s has as its priority objectives accelerated transformation, integration, diversification and growth of the African economies to strengthen them within the world economy, reduce their vulnerability to external shocks, increase their dynamism, internalize the process of development, and enhance self-reliance. A fundamental objective of the New Agenda is the achievement of sustained and sustainable economic development, including an acceleration of the rate of growth of gross national product to an average of at least 6 per cent per annum in the 1990s.

2. To this end, the New Agenda, annexed to General Assembly resolution 46/151 of 18 December 1991, recognizes the need for investment promotion and, in particular, Africa's commitment to the creation of an enabling environment that attracts foreign and domestic investment, encourages savings, induces the return of flight capital and promotes the full participation by the private sector, including non-governmental organizations, in the growth and development process.

B. The urgent need for higher levels of investment in Africa

3. For the developing countries of Africa, and of sub-Saharan Africa in particular, the compelling need to sustain a high level of investment derives from a number of critical structural factors which are evident in the region's present state of underdevelopment. These include the following:

(a) The high rate of population growth and therefore the enormous amount of resources required, inter alia, to sustain a growing population and create new employment to meet the high growth of the labour force; 1/

(b) The low levels of economic growth. Food production, for example, would need to rise by 4 per cent per annum to meet the needs of the growing population; the IMF World Economic Outlook 1993 projects (in a best case scenario) a 4.75 per cent growth rate in Africa, assuming success in structural reforms in many countries, reductions in civil strife, and a small improvement in the region's terms of trade;

(c) The urgent need to put the African economies on a path of sustainable development, providing appropriate varieties of goods and services for the African population. African economies are characterized, inter alia, by high external trade dependence. Unlike other regions, notably South-East Asia and the Pacific, which have enjoyed substantial export-led growth in their economies and a significant measure of development by adopting policies which permit flexible responses to shocks in their economies, Africa has not turned high export dependence to great advantage. In the case of the African countries, high export trade dependence based on a limited range of unprocessed primary commodities has proved to be a destabilizing factor in their economies. This has been exacerbated by structural factors and reluctance in the past to adopt corrective policy measures early, in order to cushion economies against external shocks;

(d) The need to generate the savings required to deal with the debt burden;

(e) The need, over time, to reduce the resource gap to achieve the required rates of investment and growth;

(f) The urgency of increasing efficiency of resource use through the choice of appropriate technologies and the need to obtain and adapt appropriate technology and initiate a domestic base for the cumulative and irreversible development of indigenous technologies.

C. Justification for an Africa-specific study

4. In spite of very significant changes in policy stances and comprehensive programmes adopted by African Governments to address the problems of growth and stability, Africa still remains the poorest among the developing regions. Both the African Governments themselves and the international community, which has supported Africa's new approaches to economic management, have signified their intention to intensify their efforts towards finding practical, realistic and sound solutions to the daunting problems faced by the region. This has been done at the level of the General Assembly itself, at the eighth session of UNCTAD and in the Trade and Development Board. The Board's consideration of this agenda item thus represents a further effort in UNCTAD's continued search for, and contribution to, resolution of the region's problems.

5. This report draws inter alia on the ongoing work within UNCTAD, notably the work of the Ad Hoc Working Groups on Investment and Privatization, as well as on previous reports on UNCTAD's contribution to the UN-PAAERD and the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF). The report has also benefited from reports prepared by UNCTAD, including those for the United Nations Commission on Transnational Corporations (TNCs), the World Bank and the Global Coalition for Africa, as well as reports and the outcome of the recent Tokyo International Conference on African Development. In effect, this report does not propose to repeat the analytical work done in some of these forums. Its principal objective is to pull out the Africa-specific elements of some of these reports and to attempt to draw some conclusions which might help the Trade and Development Board in formulating proposals for actions to stimulate investment in Africa with a view to raising the level of economic activity and the standard of living of the African people.

6. Although African countries have made tremendous efforts to correct some of the policies of the 1960s and 1970s, and although this has already affected the investment climate, negative perceptions still persist (see also paras. 16 and 65). The report deals with the reasons for these negative perceptions and why they persist. It is recognized that improving the investment image of Africa must be a continuing process.

7. A number of areas where reforms are ongoing and where further action is required are discussed. In particular, the report highlights such areas as macroeconomic and political stability, avoidance of civil strife, outward orientation of economic policies, deregulation, growth, capital accumulation,

development of human capital, strengthening and deepening of market institutions. In addition, the report proposes some innovative approaches which could help the promotion of investment, FDI flows and enhanced technology transfers to Africa. These include the encouragement of venture capital companies, the promotion of venture capital and country growth funds, merchant banks, stock exchanges and other capital market institutions. To enhance technology transfers the report suggests greater cooperation among African research institutions and greater commercialization of existing research results. The use of market-oriented approaches to technology acquisition is also stressed. All these factors are necessary, but may not be sufficient, to stimulate domestic and foreign direct investment.

8. The overall domestic investment environment must be perceived as positive for the business community to have confidence in the continent and be willing to undertake investments that go beyond short-term outlays. Thus, over-concentration on specific incentives designed to attract the foreign investor will not yield much unless the host country environment is attractive to all investment. For this to happen, sound economic policies, stability, rapid growth, high levels of capital accumulation, including human capital, and openness of the economy are essential.

II. OBSTACLES TO INVESTMENT IN AFRICA AND AFRICA'S RESPONSE

A. Overview

9. Even though foreign direct investment (FDI) constitutes only a small fraction of the stock of gross domestic investment in many countries, the particular problems of African countries have resulted in a tendency to focus greater attention on the former. This is due, in part, to the fact that FDI flows have become important as African countries continue to suffer setbacks on prices of their commodity exports and as the heavy debt burden continues to be a significant first charge on external resources.

10. In principle, factors which are likely to be conducive to increased domestic investment in a deregulated, market-oriented environment will also be attractive to foreign investors. These issues are discussed in the next section of the report. In this section, the report gives a brief overview of FDI flows to Africa, the reasons usually adduced for the low level of flows and the responses of African Governments to these obstacles.

11. Africa has been far less successful than other developing regions in attracting FDI. In the period 1981 to 1990 annual inflows of foreign direct investment to Africa averaged $2 to $3 billion. Africa's share of FDI inflows to developing countries as a whole averaged 12 per cent for the same period. In the 1991-1992 period, it fell below 7 per cent. 2/ Thus, in 1990, of the $32 billion invested in developing countries, South and South-East Asian countries attracted $18 billion, Latin American countries $10 billion and African countries only $2 billion. 3/

12. An examination of the sectoral distribution of FDI in Africa reveals that FDI in the region is primarily directed towards the non-manufacturing sectors. 4/ Apart from the North African countries which have made some headway with diversification, FDI in most African countries is concentrated on exploitation of the natural resources and in services such as trading houses, construction and financial services.

13. Only a small percentage (about 2 per cent) of TNC affiliates in the primary sector are engaged in agriculture and a slightly higher percentage (about 3 per cent) in mining and quarrying. The rest are in petroleum. In the processing or manufacturing sector, the dominant activities are processing of food, beverages and tobacco products, textiles, chemicals and fabrication of metallic and non-metallic products. Significantly, distributive and financial services subsectors dominate the services sector. The services sector itself accounts for nearly two-thirds of TNC affiliates in Africa. This is a clear indication that at this stage at least, the large foreign investors prefer to trade with Africa rather than invest in productive activities in the region. Indeed, such FDI as there is in Africa is largely in the form of profits which have been ploughed back into the business. Fresh injections of FDI are limited mainly to the petroleum sector. On the whole, the share of FDI in gross domestic investment in Africa is low.

B. Obstacles to investment in Africa

14. Most of the literature on FDI flows to Africa lists a number of obstacles which are not necessarily unique to Africa but which, taken together and combined with other structural limitations, tended in the past, to discourage investment in the region. These include the following:

(i) Incomes are low and growing only very slowly; in several cases populations are rural and too dispersed or too small to offer an attractive market;

(ii) The low levels of domestic savings, coupled with a paucity of high- and middle-level entrepreneurs, reduce the scope for joint ventures and other forms of equity arrangements with foreign investors;

(iii) The absence, in most cases, of a critical mass of trained personnel locally, as well as the shortage of managerial and technical skills, leads to inefficiencies and low levels of productivity;

(iv) There is a lack of good infrastructure with a reliable power supply, good telecommunications, adequate transportation and port facilities, efficient water supply, and, on a continent with several land-locked countries, efficient transit arrangements;

(v) Commercial banks are weak and inefficient, which implies that intermediation is poor, while lack of competition enables banks to pass on their inefficiency costs to businesses;

(vi) The absence of efficient, long-term financial institutions, capital markets, stock exchanges, etc., limits possibilities for mobilizing equity and other long-term funds;

(vii) High dependence on ODA, at a time when private flows are declining, tends to give negative signals to prospective investors.

15. These problems were further exacerbated by structural and conjunctural factors originating in the centralized economic management and often inappropriate macroeconomic policies of the early post-independence period, the widespread nationalizations, sometimes without proper compensation, inward-looking industrialization policies, administrative controls, political instability, high population growth, low commodity prices, heavy debt burden and natural disasters such as drought, desertification and insect pests which destroyed crops. Some of these factors are further discussed in the next section.

C. The changing investment climate

16. While the foregoing represented a formidable list of deterrents to investment in the past, it can be said that African countries have, since the mid-1980s, taken strong and significant measures to remove or rein in some of these negative factors. However, the negative image of Africa as a whole, that of a poor region characterized by starvation, civil strife and human misery, persists outside the region. In part, this caricatural image of

Africa is attributable to media coverage of events in specific countries and to the lack of appropriate efforts in countries unaffected by domestic turmoil and distress to project a more objective image of their own situation. 5/ A few examples of the more positive developments are discussed below.

17. The economic environment in Africa today - even granting exceptions - is far more market-friendly than in the 1970s and early 1980s. It is generally agreed that many African countries have courageously adopted rigorous structural adjustment programmes and other economic reform measures. The extent of the courage of African leaders and the sacrifices borne by their peoples should become even better appreciated as the effects of similar programmes now being pursued in other regions unfold. African countries have undertaken widespread deregulation of their economies and adopted market-oriented approaches to economic management generally. Moreover, there is a major shift towards openness and outward orientation in terms of economic relations with the rest of the world. Naturally, there may be exceptions, but even in those cases, the slower pace of reform tends to divert attention from the overall regionwide trend towards market-friendly policies. The Trade and Development Report, 1993, dealt with the issues involved in such reform programmes.

18. Particular economic measures that have been adopted in many African countries have included: trade liberalization; devaluation of their currencies; increases in interest rates paid by financial institutions to savers (and charged to borrowers) to achieve positive real rates of interest; deregulation of domestic economies; monetary and fiscal discipline, including reduction of subsidies and other budgetary expenditures; privatization of State enterprises; and encouragement of FDI.

19. Also, prior to the adjustment period of the 1980s, most African countries had registered major strides in various socio-economic fields since independence. In this connection, the disappointing recent statistics on GDP growth (or decline) conceal the long-term build-up of considerable long-gestation - period capital, particularly human capital. Primary school enrolments as a percentage of the relevant age group were up almost everywhere by large proportions during the 1980s over the levels of 20 years previously. Secondary school and university enrolments rose proportionally by even more. The African labour force of the 1990s is thus far more literate and numerate than before. Secondary school and university graduates are no longer swallowed up by burgeoning governmental bodies in every African country. There is thus a surplus pool of educated labour in many countries which the private sector, at its current levels of technological capacity, can use. In the realm of physical capital, even though substantial additional investments are required to bring them to the levels of other developing regions competing for FDI, there has also been a substantial build-up of roads, harbours, airports, electricity generating capacity, urban housing, and other buildings in both the social and directly productive sectors. Many countries are either rehabilitating existing infrastructure and improving its efficiency and/or developing programmes for expansion, especially in transport, communications and energy. This physical infrastructure, which takes a long time to build, should permit more rapid expansion in output of goods and services, provided high maintenance standards are established and the services are efficiently used.

20. It is worth noting that there are several African countries which have, since independence, been characterized by a relatively stable and peaceful socio-political environment, free of ideological confrontations, ethnic strife and labour disputes (Botswana, Cameroon, Cote d'Ivoire, Gabon, Kenya (until recently), Mauritius, Morocco, Senegal, Swaziland and United Republic of Tanzania).

21. Some of these countries have attracted a growing number of investors and entrepreneurs who are looking at the continent in the light of the reforms and other measures introduced since the 1980s. While it would be unrealistic to minimize the constraints that exist, there is no denying the strides that have been made. These augur well for a sustained improvement in the continent's economies.

22. Another positive development has been the new initiatives and approaches to subregional and regional integration and cooperation in Africa. All African countries are members of subregional and regional integration groupings and other regional cooperation associations. The objective is to facilitate ready access to regional as well as international markets. Moreover, the OAU's programme of regional integration which aims at an African Economic Community and Common Market by the year 2025 aims to unify Africa's fragmented markets to make them more attractive to potential investors.

23. There is no doubt that many African countries, as part of their economic reform programmes, have accepted the necessity to encourage investment in general, and FDI in particular, with a view to speeding up the economic and social development of their countries. The aim is to increase overall investment, accelerate growth and increase the supply of goods and services, as well as to encourage foreign investment to participate widely and constructively in the rehabilitation, reconstruction and recovery efforts of their countries. Many have accepted the necessity to expand investment opportunities by revising and harmonizing investment laws and regulations and by eliminating the bureaucratic hurdles to private investment. In this regard, most countries have introduced favourable tax and regulatory treatment for investors, as well as accelerated and streamlined procedures for handling investment proposals. Access to foreign exchange for repatriation of capital and profits is guaranteed in many countries. The new businessminded attitude in the continent heralds economic benefits to the African countries and financial dividends for prospective domestic and foreign investors. Many countries have also introduced special measures to assist investors, such as provision of information - for example, about investment possibilities in each country, possible partners in joint ventures, or the procedures with which a new investor setting up business in the country concerned needs to familiarize himself with (e.g. Botswana, Kenya, Mauritius, Swaziland and United Republic of Tanzania, to mention a few).

24. Some researchers have reached the conclusion that African Governments have provided adequate financial incentives to attract FDI. According to this view, what is lacking is a conducive overall investment climate. "Surveys of investors over the past 30 years have consistently found that legal guarantees are more important than special financial incentives. Guarantee of the investor's right to repatriate investment capital and dividends, interest on approved loans, and expatriate salaries are also major primary concerns." 6/

25. An examination of the investment climate in Swaziland by a team of consultants for the United States Agency for International Development, in 1987, for example, 7/ found that the environment for private sector development in Swaziland was excellent relative to other sub-Saharan countries largely because Government policy encourages private investment by avoiding disincentives rather than by trying to compete with the cash grants and subsidies offered by several neighbouring countries. Charts I and II illustrate some of the factors which, in the opinion of investors, are important for FDI flows in Swaziland.

Chart I

Relative importance given by business executives to Government policies, regulations and procedures in encouraging private sector development in Swaziland

	Considered favourable			Considered unfavourable		
Factor	Major	Moderate	Minor	Minor	Moderate	Major
1. Political stability	X					
2. National development plans	X					
3. Establishing a business*		X				
4. International remittances	X					
5. International trade agreements	X					
6. Investment incentives and performance requirements			X			
7. Taxes				X		
8. Labour regulations			X			
9. Government controls and interference		X				
10. Banking and credit regulations		X				

Source: "Investment climate and private sector assessment of the Kingdom of Swaziland", US AID DIMPLEX, Mbabane, Swaziland, July 1987.

* This involves such issues as land tenure, site availability and the general conditions of the principal infrastructure.

26. From this it is clear that political stability, long-term development plans, regulations concerning international remittances, market size and access, the host country's membership in subregional, regional and international organizations, infrastructure, financial resources, business services and living conditions are high on the list of priority concerns of potential investors. It is interesting to note that such issues as taxes, investment incentives and labour relations were not among the priority aspects.

Chart II

Relative importance given by business executives to economic and market factors in encouraging private sector development in Swaziland

	Considered favourable			Considered unfavourable		
Factor	Major	Moderate	Minor	Minor	Moderate	Major
1. Market size and access	X					
2. Basic materials and parts			X			
3. Infrastructure	X					
4. Financial resources		X				
5. Business services		X				
6. Local entrepreneurs and senior management					X	
7. Middle management and technical staff				X		
8. Supervisory and skilled labour						X
9. Unskilled labour		X				
10. Living conditions	X					

Source: "Investment Climate and Private Sector Assessment of the Kingdom of Swaziland", US AID, DIMPLEX, Mbabane, Swaziland, July 1987.

27. A major constraint cited was unavailability of Swazi/local skilled labour, technicians and management personnel. This corroborates evidence which increasingly indicates that while relative costs continue to play an important role in influencing FDI location decisions, some of the factors which used to be considered of the essence, such as low direct labour costs, have been diminishing in importance in recent years.

28. Finally there is now a keen awareness among most African leaders that the best hopes for rapid economic growth lie in the enterprise sector. At the same time, progress towards democracy and more open government, opens up

possibilities for greater involvement of the private sector in policy-making. Thus, many countries are pursuing divestiture programmes to privatize State-owned enterprises, not only to stop the waste of resources which has been prevalent in this sector but also in recognition of the key role which the private sector can play. The slow progress with privatization and enterprise sector development in many countries is not due to a lack of political will but arises mainly from limitations imposed by the overall investment environment, some of the elements of which have been discussed above.

29. On the whole, African countries have come a long way from the negative and highly restrictive policies towards private investment which prevailed from the 1960s up to the early 1980s. Moreover, even though physical, human and institutional capital has not grown rapidly in recent years, there is a substantial stock of capital in all these areas which, with some well programmed rehabilitation, restructuring and efficient deployment, investors can benefit from. In this regard, Africa deserves greater recognition for its efforts than is has received so far. However, the process is a dynamic one. There are still large areas where African countries need to build upon their achievements to date. Some of these areas are described in the next section of this report.

III. MEASURES TO IMPROVE THE ENVIRONMENT FOR DOMESTIC INVESTMENT, FOREIGN DIRECT INVESTMENT AND TECHNOLOGY TRANSFER

A. Introduction

30. In the current wave of privatization and market-oriented approaches to development, much effort has been devoted to policies and measures specifically aimed at attracting the foreign investor. Investment incentives are generally designed to meet the requirements of foreign investors. 8/ In some extreme cases, there has even been discrimination against existing foreign investment in favour of new foreign investment. Foreign investment, however, is usually only a small part of total private investment. To increase total capital formation, therefore, African countries need to give due weight to the stimulation of domestic investment. 9/

31. Experience shows that a positive investment climate which promotes a vibrant domestic entrepreneurship acts as an important pull on foreign direct investment. Generally speaking, foreign and domestic private investment tend to go together. A country which is not popular with domestic investors will hardly attract FDI. The first part of this section of the report, therefore, discusses some of the general areas of further action required to raise the level of domestic investment in Africa. The second part focuses on FDI in Africa.

B. Domestic investment

1. Risk and stability

32. The main attraction for any investor - local or foreign - is return on capital. The investor's notion of what is a fair return on capital is closely linked with his perceptions of the risk involved in the enterprise. The more predictable the environment, the more positive will be the investor's perception of risk. A stable enterprise environment is indispensable to private investment because, by increasing predictability, it reduces risk and enhances investors' perception of profit. The concept of a stable enterprise environment covers several spheres of management of a country. Some of the more directly relevant ones are discussed below.

(i) Political stability

33. First among them is political stability. Stability of Governments is directly linked with stability of policies and of management. Countries which are subject to frequent and unpredictable changes of government or regimes cannot be very attractive to new investors. Until recently, many African countries have been characterized by frequent changes of regimes. Those who have already invested will try to live with the situation, but the potential investor will prefer to wait for a more predictable political environment.

(ii) Macroeconomic policies

34. The second important factor is stability of the macroeconomic environment and related policies. Many African countries are now engaged in macroeconomic policy reforms to remove disequilibria, to reduce high rates of inflation and

the consequential need for massive devaluations, and to build into their policy response mechanisms the flexibility that will enable them to deal with rapid changes in the global market place. These policies need to be pursued with determination and deepened. Moreover, policies should be perceived as being consistent, directed towards the goal of maximizing economic growth and output. Sudden reversals of policy can be destabilizing to investors. Macroeconomic policies whose main objective and general direction are clearly discernible and point to growth with stability on a consistent basis over a reasonable number of years constitute an important ingredient of a favourable investment climate.

(iii) Degree of openness of the economy and growth

35. Sound macro-policy is not enough, however. Countries that have put in place outward-looking development strategies have performed better than inward-looking ones. The evidence shows that for most countries an open approach to trade is indispensable. By outward-looking approach to trade is meant that the Government's economic policies, taken together, do not discourage exports. This is another important component of policies which can encourage investment.

36. A study of trade regimes and growth in the periods 1963-1973 and 1973-1985 10/ reveals that strongly outward-oriented countries performed much better, registering 6-10 per cent average annual growth in real GNP per person. Moderately outward-oriented countries registered real GNP per person of between 2 and 6 per cent per annum. For moderately inward-looking countries, the real GNP per person growth rate ranged from zero to about 4 per cent and was negative for some. For the strongly inward-oriented countries, the real GNP per person growth rate ranged from zero to about 3.5 per cent, and was negative for some. Growth in income per head was highest in the strongly outward-looking. The same was true for growth in total GDP and manufacturing value added, and for the efficiency of investment.

37. A recent World Bank Study concludes that "most sub-Saharan economies followed an inward-oriented, import-substitution strategy, supplemented by widespread use of tariff and non-tariff barriers to reduce external competition, mainly in manufacturing. An index of outward orientation shows sub-Saharan African countries as the least outward-oriented - and Asia's high performing economies as the most". 11/

(iv) The role of Governments

38. A fourth ingredient relates to Governments' intervention policies. An overall policy stance which favours openness, export orientation and market-friendly approaches can be an important ingredient in investors' perception of a country's investment climate. Whereas the general trend in recent years has been towards private enterprise and market-friendly approaches to economic policy formulation, it would be misleading to give the impression that government intervention policies have no place in creating and sustaining a liberal export-driven economic system in African countries. The fact is that all Governments intervene in their economies from time to time to promote certain national objectives, to correct market failures or to reduce market excesses to which private enterprise is sometimes prone. 12/ Indeed

recent research shows that the high growth, newly industrializing countries of East and South-East Asia have frequently intervened in many areas of their economies to promote their development objectives. 13/

39. The objectives of such government interventions included bolstering savings, building strong financial markets, establishing and supporting government banks and sharing information widely between the public and private sectors. On occasion, some countries employed financial repression - keeping the lid on savings and borrowing rates - to increase profits and retained earnings. To promote industrialization, many of these countries targeted and subsidized credit to selected industries, protected domestic import substitutes, and established industry-specific and even firm-specific export targets. The array of policy mechanisms used to encourage investment includes maintaining low capital goods prices through tax, tariff and exchange-rate policies which keep relative prices of investment goods in these countries below those in other low- and middle-income countries, and subsidized interest rates.

40. However, where the pursuit of short-term objectives requires government intervention, the objectives themselves must be, and be seen to be, consistent with the major overall aims of growth and stability. Studies of the East and South East Asian experience 14/ identified two important prerequisites for successful intervention by Governments. Firstly, institutional mechanisms that enable Governments to establish clear performance criteria for selective interventions must be developed. Secondly, the costs of intervention, explicit or implicit, must not become too excessive. Where selective interventions threaten macroeconomic stability, corrective action must always aim to uphold prudent long-term strategies. Thus, the issue is not whether or not African Governments need to intervene in order to promote investment or what policies to pursue. Rather it is the need to recognize the institutional and economic circumstances which make for a successful economic system. Experience shows that countries with a greater capacity to manage and implement specific interventions have been more successful. In particular, intervention must be implemented in a highly disciplined and performance-based manner. Moreover, measures employed must be time-bound in nature so as not to perpetuate inefficiency. Thus, policy-makers seeking to follow interventionist policies must bear in mind these conditions, which are indispensable for success.

2. Capital accumulation

41. Improved levels of capital accumulation through higher savings performance in Africa will be essential. In the 1960s, both gross domestic investment and saving rates in Africa were comparable to those of the South-East Asian countries. Since then, the latter countries have steadily surpassed their African counterparts on both counts. 15/ There has been a pronounced divergence in the rate of savings of the two groupings. In Africa, gross domestic savings as a percentage of GDP declined in the 1980s, while in the South-East Asian countries it increased significantly.

42. The much higher savings propensity in South-East Asia and China helped to deepen capital accumulation with relatively less dependence on external sources. Such high rates of savings and capital accumulation, in spite of relatively low per capita disposable incomes, provided the basis for rapid domestic investment and growth.

3. Human capital and human resources development

43. In the past, one of Africa's comparative advantages was the existence of a large pool of cheap labour. The attraction of cheap labour to the investor should not be interpreted as an attraction of unskilled labour. In the longer run, unskilled labour is more expensive because of low levels of skill adaptability, low productivity and wastage through low levels of quality consciousness. Wherever countries have depended on cheap labour to start their industrialization, they have quickly found that "the sweat shop approach" is not sustainable in the long run. Again, experience, especially in South-East Asia, demonstrates clearly the close links between human capital and economic performance. South-East Asia invested heavily in human resources development and in raising productivity generally. This is one of the explanatory factors for the success of the high-performing Asian Economies.

44. In the immediate post-independence period, African Governments made substantial investments in the areas of education, health and physical infrastructure. However, as macroeconomic disequilibria brought about by inappropriate policies had to be redressed in the 1980s, most countries adopted World Bank and IMF-supported structural adjustment programmes to reintroduce macroeconomic balance and flexibility in economic management. Whereas the programmes may be said to have been largely successful in their major objectives of economic recovery, their adverse effects on infrastructure and social expenditures, especially education and health, are well documented. In effect, an unintended but important downside to structural adjustment programmes in Africa has been the reduction in education expenditures. This has now been recognized, and it is expected that both the African countries and the multilateral financial institutions will give due weight to the important task of human resources development to create the necessary basis for higher levels of economic growth.

45. Countries which have made solid and consistent progress, with rapid economic growth and the high rates of investment from which growth springs, have had to invest heavily in human resources development. African countries must build upon their achievements through higher investments in human material. In the process, it will be important to pay attention to the content as well as the quantity of education. Literacy is a basic starting-off point, but the development of high or at least intermediate-level numerate and technical skills is essential. Such a labour force, because of its training, will have a high capacity to absorb, adapt and utilize relevant technology and be adaptable to the rapidly changing technological environment.

4. Institution-building

46. Efficient allocation of resources depends on the existence of well functioning markets. Markets themselves are best fostered by sound institutions. Sound financial markets help to deepen business cultures. The

deeper these institutions and the broader their spread, the greater their contribution. The dilemma of many African countries today is that they have to develop market-oriented approaches to economic management very quickly without the benefit of strong market institutions. Institution-building is, therefore, a priority for African countries. For the purposes of this particular report, discussion of institution-building is limited to the creation of sound and properly regulated financial and capital markets.

47. In the financial sector especially, strong and healthy financial institutions not only inspire confidence of investors but also fulfil an important role of providing the facilities for savings mobilization and for efficient intermediation between savers and potential investors. In many African countries, financial institutions which are necessary to perform these functions are either too weak or too poorly adapted to the exigencies of a dynamic market place. In some cases, the relevant institutions do not exist. Some examples below illustrate the point.

48. The banking systems of many African countries are currently in need of serious restructuring. The extreme financial instability of the 1970s and early 1980s, characterized by double-digit inflation, highly overvalued exchange rates and high fiscal and balance-of-payments deficits, have had serious distorting effects on the balance sheets of most African banks. In addition, bad lending practices, sometimes born of political interference, have eroded banking cultures deeply. In the past, central banks were mainly preoccupied with liquidity ratios and problems of credit control, believing that bankers would exercise overall prudence. Consequently the monetary authorities did not exercise any prudential controls.

49. The result of these experiences is that most African financial institutions now have large portfolios of non-performing assets (bad debts), negative net worth, and negative or very low capital adequacy ratios. Because of these weaknesses, banks have tended to pass on their inefficiency costs to their better clients. Intermediation costs are therefore high, as reflected especially in the wide spreads between banks' deposit and lending rates.

50. At the longer-term end of the financial markets, pension, insurance, and other long-term funds merely provided cheap sources of credit for the fiscal deficit. Governments even determined the rates at which they borrowed these funds. This form of financial repression, coupled with a tendency to favour State-owned enterprises in credit allocation by banks, resulted in the crowding-out of the private sector. The adverse effects on the private entrepreneur and investment are obvious.

51. Most African countries have no stock exchanges, which are the market place for equity and other long-term funds. Those that exist are still in their early stages of development, and the volume of transactions is thin. Also, in view of the factors discussed above, the spread of debt instruments available is very limited. Thus, potential investors are limited to a narrow range of sources such as the banks, direct loans from relatives or insurance companies. The absence of active and efficient capital markets is yet another major constraint on the potential investor. Their absence also deprives

savers (holders of equity and other debt instruments such as bonds, etc.) of facilities to rearrange their asset portfolios as may be required to meet their liquidity preferences on a timely basis.

52. To overcome these problems, some African countries are now engaged, with the support of the World Bank, in major financial-sector adjustment programmes. The main features of these programmes include rehabilitation of the banking sector. This involves making adequate provisions for bad and doubtful debts and exchange losses, strengthening internal accounting and credit management procedures, strengthening management generally, and above all injecting new equity to remove negative net worth and build up reasonable capital adequacy ratios as may be necessary.

53. At the long-term end of the market, pension funds are being reformed. Where diagnostic studies reveal a possible mismatch between assets and obligations, this is being addressed. Also, some countries have recently established stock exchanges which are being helped, through financial sector adjustment programmes, to develop on a sound footing. These measures, if successful, should make a major contribution to the creation of conditions conducive to a healthy investment environment. In Ghana, the UNCTAD secretariat, at the request of the authorities, has, in close collaboration with the World Bank, been providing technical assistance for the country's financial sector adjustment programme.

54. The foregoing observations have been intended to highlight some shortcomings on the domestic investment environment in African countries and possible areas of action to improve it, since growth and development in Africa will have to come from substantial increases in domestic investment. However, FDI will be an important supplement, especially because of the strong linkages with technology transfer and markets.

C. Factors affecting foreign direct investment (FDI)

55. Trends in FDI flows to Africa have been briefly discussed above. In principle, factors which are likely to induce increased domestic investment in a deregulated, market-oriented environment will also be attractive to foreign investors. The issues discussed in the preceding section are, therefore, also relevant to FDI flows. Hence, factors discussed in this section are additive and complementary rather than substitutive to the factors discussed above.

56. Various explanations are usually given for Africa's apparent inability to attract adequate levels of foreign direct investments (FDI) and stimulate sufficient levels of domestic private investment to sustain a high level of economic activity.

57. Similarly, several motives are involved in a firm's decision to invest abroad. These vary from firm to firm. They include: the profit motive, safeguarding and gaining market shares, economies of scale, and global competitive strategy. Countries that factor these considerations into their policies to stimulate and attract foreign direct investment have been more successful.

58. Host country policies have an important bearing on the flow of FDI. Favourable policies range from general economic policies leading to a stable macroeconomic framework and liberalization of domestic financial markets to specific FDI-related measures such as transparent and non-discriminatory legal and regulatory systems and free transfer of profits and capital accumulation.

59. Since the late 1970s, and especially in the 1980s, many African countries have made significant efforts to attract FDI. There has been wide-scale deregulation, privatization of state-owned enterprises, including in some cases return of nationalized enterprises to former foreign owners, and liberalization of trading, exchange and credit regimes. Moreover, many countries have introduced investment codes which aim to reassure the foreign investor and to offer specially attractive conditions.

60. Some evidence suggests, however, that competition through the use of subsidies and incentives, particularly fiscal incentives, could be costly to African countries. 16/ Where these already existed, their sudden removal might produce negative effects; where they did not as yet exist, their introduction might not produce the desired results. To the extent possible, African countries should seek to avoid competitive bidding, and instead enhance exchanges of ideas in order to reduce unnecessary costs.

61. In a recent study, the United States Commerce Department analysed and evaluated the investment codes of 46 African countries. This evaluation found that:

> "Most African governments use a variety of incentives to attract foreign direct investment in general. The most commonly offered incentive is a total or partial exemption for excise and/or import taxes on material and equipment required for the establishment and functioning of business. Total or partial exemption from taxes on profits is also used by countries. Other tax-oriented incentives include complete tax holidays." 17/

The study found that in about two thirds of the African countries, repatriation of profits is free, and that most governments prefer that investment be made in specific industrial sectors.

62. Apart from the factors discussed above, negative perceptions of foreign investors, which are largely carry-overs from the 1960s and early 1970s, are mainly responsible for the reluctant flow of FDI to Africa. Some of the factors influencing FDI in Africa are discussed below.

1. Negative experiences

63. In the early post-independence period, many African countries sought to capture "the commanding heights" of their economies through a number of measures which were to have very strong adverse effects on the confidence of the foreign investor. Apart from very aggressive policies aimed at reserving certain sectors of the economy for nationals, there was a spate of nationalizations. Some of these were without adequate compensation.

64. Even where there were no nationalizations, restrictions on transfers of profits and personal earnings of expatriate employees, as well as immigration quotas, have been seen by potential foreign investors as negative factors. In addition, numerous administrative controls and related delays in obtaining approval, as well as some of the other factors discussed above, have tended to put off potential investors. It needs to be said, however, that all countries have regulatory mechanisms of one sort or another, and that while the factors mentioned here are not unique to Africa, the cumulative effects of all of them have left foreign investors with negative impressions. Nevertheless, as noted earlier, African countries have been making very significant efforts to change this image.

2. Lack of information

65. A lot of the information on Africa which investors rely upon comes from the media, and in spite of substantial progress on several fronts, media reports on Africa in the past decade have not been positive. On the other hand, serious investors who may want to look beyond the media lack access to the appropriate information from Africa. 18/ Where it is available, it is sometimes outdated. Small- and medium-scale enterprises - which may be particularly handicapped by limited knowledge of conditions overseas - need to be stimulated by publicity, information and personal contacts.

66. The African countries themselves have not paid much attention to protecting their image by putting out factual information on their positive achievements in the spheres of economic reforms and institution-building. They need to counter the negative image of the earlier years. This is important because, in spite of the factors mentioned earlier, African countries have made very substantial advances in many of the areas discussed. It is, therefore, necessary to counter the negative perceptions of investors about Africa with facts on recent developments in the region. This should assist investors in forming a more balanced view of the actual situation in Africa today compared to 15 years ago.

3. Sector-specific targeting

67. In cases where countries have made efforts to attract foreign investment, the approach has, in most cases, not been targeted at specific sectors. Usually, the material produced has tried to cover every aspect of the economy and a very wide range of possibilities. While such general background is useful, experience has shown that FDI is more likely to respond to sector-specific efforts to attract investment. The revival of interest and subsequent increased flow of FDI into the gold-mining sector of Ghana, for example, was the direct result of a vigorous campaign in 1980 to take advantage of the changing image of the country and to expose the potential of the sector to foreign investors. Thus, investment promotion campaigns aimed at specific sectors where natural resource and other endowments give the countries concerned comparative advantage can help, at least, to direct foreign investors' interest to the target sector.

4. Markets

68. The availability of a large market acts as an important pull on investors. Except for a few countries such as Egypt, Nigeria, South Africa and Zimbabwe, most African countries, taken individually, have limited market potential. Thus, for many products, access to a larger internal African market or to global markets is indispensable to attracting FDI flows into Africa. Many tariff and non-tariff barriers are still imposed by African countries in their trade with each other. There are also barriers to entry to global markets, especially in the case of Africa's processed and, particularly, manufactured goods. 19/ Without reasonable assurances that Africa's products will not face restrictive barriers in regional and global markets - particularly in markets of major trading partners - investors are unlikely to be strongly attracted.

5. Regional integration

69. Africa's regional integration efforts can have an important effect in attracting FDI flows into the region. The benefits of regional cooperation and integration in Africa have been fully discussed in various UNCTAD documents, especially "Regional Integration Issues in Africa" (TD/B/39(2)/11). For the purposes of the foreign investor especially, these include larger and unified markets with common rules and conventions governing the movement of goods and services, capital, and labour. 20/ Regional integration removes the uncertainties of having to deal with different regimes in a multiplicity of States, most of whose markets are too small to be viable on an individual basis.

6. The enterprise sector

70. There is need for a continuing dialogue between African business communities, policy-makers, and government representatives on the one hand and their counterparts on the investors' side on the other. The concepts of the so-called "investment climate" are not always well defined.

71. Programmes supported by the World Bank and IMF have always held up the prospect of higher private flows if reform programmes are pursued. These multilateral financial institutions (MFIs) have rightly asserted the catalytic character of their role, with their loans to African countries being considered as seed money. But instead of increasing, FDI flows to Africa have declined in recent years.

72. This is partly due to three factors. Firstly, there has not been sufficient dialogue and interaction between African countries and investor countries. This can be done effectively through frequent exchanges of views between the real actors - the entrepreneurs - from the host and home countries and would be designed to identify possible improvements in the investment climate. Secondly, such dialogue as there has been hitherto has been conducted largely at inappropriate levels. Despite the rhetoric about private enterprise development and privatization, contacts and exchanges between home and host countries are still largely at the official level, i.e. between

government policy-makers, international institutions and academics. The real actors - representatives of chambers of commerce and industry - have been excluded. Thirdly, neither the home nor the host countries have paid sufficient attention to setting up the institutions which can support and facilitate FDI flows to Africa.

73. It is generally known that FDI flows are also influenced by conditions in the investors' own country and the attractiveness of the investment climate in other countries. Accordingly, unless conditions in Africa are at least as attractive as in other regions, the potential investor will stay at home or invest elsewhere. Africa's development partners can contribute to Africa's attractiveness through a number of policy and institutional arrangements (see para. 100).

D. TRANSFER OF TECHNOLOGY 21/

74. During the last 10 years, most African countries have had serious difficulties in promoting both internal and foreign direct investment, as well as in acquiring the technology usually associated with them. Three interrelated major factors have been at play, either individually in some countries or simultaneously in most other countries. The first factor is the economic crisis resulting from foreign trade imbalances, shortage of foreign currency and the debt burden; the second factor is the lack of a technological capability; and the third is the lack of a clear technology policy.

1. The role of the general economic conditions

75. It is now generally accepted, on the basis of numerous studies, 22/ that there is a strong relationship between investment, technological progress and economic growth and prosperity. Better economic conditions stimulate internal investment and attract foreign direct investment, together with the technologies often transferred with FDI. Technological acquisition also derives from internal investment in R & D institutions. Technology transfer has followed foreign direct investment in the more successful newly industrializing countries. These countries can now afford to be more selective, mainly promoting FDI embodying the latest technologies. They are also investing heavily in their own R & D institutions to generate new technologies themselves if possible. This could only be achieved because they have been able to plan and master the resources required to train enough highly qualified researchers abroad or in newly established institutions with adequate equipment and operating funds to do world-class research.

76. While African prospects for attracting significant foreign direct investment and technology do not appear at this stage to be encouraging, that does not mean that the underlying obstacles and constraints cannot be addressed in the meantime and redressed as far as possible. Imaginative initiatives, entailing both policy and institutional aspects, at the national and subregional level would need to be taken. The establishment of the new Afreximbank for promoting intra-African trade is one good example. The training of younger and dynamic entrepreneurs with high-level managerial skills will be good not only for business management but also for attracting FDI and generating domestic investment.

2. Lack of technological capability

77. One way to enhance technology transfer to developing countries is to take advantage of available technological capability and to create new businesses or reorient old ones. That is why more countries, including Western European ones, are setting up new R & D institutions and businesses in order to tap their accumulated technological capabilities as a means to revive their economies through improved competitiveness.

78. Unfortunately, most African countries are suffering from weak technological capabilities for both historical and structural reasons. Up to the time of independence, sub-Saharan Africa had few, if any, training institutions able to produce the kind of highly trained human resources needed in modern technology-intensive businesses. Although there has been much progress in education, African countries need to invest much more in the development of high-level human capital. Only a limited number of African countries have post-graduate training centres. Although there are many highly trained Africans abroad, local conditions, including research facilities, are not sufficiently attractive to lure them back to the region. Most universities are still only a few decades old and are struggling to meet their academic and technical goals. It is even worse for R & D institutions which, in addition to their lack of adequate human resources, are experiencing a crippling budgetary crisis.

79. In consequence, because of insufficient availability of local counterparts, Africa has been spending precious resources in paying technical assistance experts from abroad who leave as soon as their projects are completed, without assuring the necessary transfer of know-how. Fortunately, funding agencies like UNDP and the World Bank seem to be fully aware of this problem and endeavour to give preference to national experts if possible. An example is their funding support for projects designed to increase national capabilities in project and policy analysis and management. Other initiatives for capability-building in Africa include, for example, the various projects of the Preferential Trade Area for East and Southern Africa (PTA): a metallurgical technology centre in Zimbabwe, the Leather and Leather Products Institute in Ethiopia, and the joint PTA and International Telecommunications Union (ITU) project on manufacturing of telecommunications equipment in Africa. Multilateral and bilateral agencies have assisted in evolving training and R & D centres in Africa in areas such as biotechnology, agricultural research, health and medicine, etc. Other initiatives are being taken on a national basis through interactions of R & D and training centres with the enterprise sector. To avoid duplication and take full advantage of all these initiatives, there is clearly a need for technology policies and a coordinated mechanism at the national, subregional and continental levels.

3. Lack of technology policy

80. The development strategies adopted throughout the continent ignored one important dimension, namely a clear technology policy which would act as an explicit link between education, research and other policies in other sectors of the economy (industry, agriculture, services, employment, etc.).

81. Experience has shown that it is not enough to open the economy to FDI through a generous investment code or the establishment of a free trade zone. Some FDI might come just to take advantage of natural resources or other cashable opportunities (cheap labour, fiscal incentives, etc.), without necessarily increasing the country's competitiveness through technology transfer. African countries do, therefore, need a clear technology policy. To design it, they can draw on the experience of other regional developing countries or from international organizations, like UNCTAD and UNIDO.

IV. POSSIBLE AREAS OF FURTHER POLICIES AND INITIATIVES

82. The preceding section of this report has elaborated upon a number of areas where positive action would contribute to a more congenial investment environment. It is worth reiterating that avoiding disincentives per se is of paramount importance. This should, in turn, encourage increased FDI flows and associated transfers of technology. This section briefly outlines some further areas and policies which could assist African countries in their efforts to promote increased domestic investment, FDI flows and technology transfer in Africa.

1. Policies required

83. The possible areas for early attention could include the following:

(i) Wider use of bilateral investment and protection agreements which contain rules on fair and equitable treatment, free transfer of payments related to investment and international arbitration in case of disputes; as well as accession to the Convention establishing the Multilateral Investment Guarantee Agreement (which guarantees foreign investors insurance coverage against such non-commercial risks as nationalization and losses owing to armed conflict or internal disorder);

(ii) More aggressive outreach programmes, to open up and engage in open, mutually fruitful cooperation with neighbours and other countries; including putting in place a regional trade and investment cooperation framework which could facilitate, for instance, the adoption of a code of principles for joint ventures providing for equal treatment and non-discrimination, guarantees against nationalization or full compensation in case of nationalization, freedom to remit profits, dividends and earnings and to repatriate capital, liberal allocation of foreign exchange, arbitration by mutually acceptable bodies and granting of approval for investment without concessions or trade-offs; a regional trade and investment cooperation mechanism can enhance the active participation of the private sector by establishing a regional association of chambers of commerce and industry which would assist in identifying potential joint ventures between countries of a subregion and advise Governments to take appropriate measures to promote them; it could also ensure coordination of investment policies in order to prevent unnecessary competition among countries for foreign capital where each country attempts to offer better incentives than others, which could be to the detriment of all;

(iii) Increased efforts to improve transit arrangements and to pool resources; this is particularly important for landlocked countries and small island countries (see note 18);

(iv) A greater role for the private sector and private investment generally; acceleration of the reduction in the number of public enterprises and improvement of the efficiency of enterprises remaining public;

(v) Higher levels of investment in human resources development to create a broad mass of highly skilled technical labour; this is particularly important if African countries are to increase their capacities to absorb and adapt technologies to meet the demands of a competitive global market;

(vi) Reform and restructuring of the financial sectors so as to eliminate inefficiencies and create the conditions conducive to the mobilization of savings and financial intermediation;

(vii) Establishment of capital markets, including stock exchanges, to facilitate the mobilization of equity and other long-term capital for investment in the private sector.

2. Some possible initiatives

84. In addition, specific new initiatives proposed below for consideration could help African countries to increase investment, FDI and technology transfers. The object is to stimulate some discussion and, hopefully, prompt some cooperative action by African countries and their cooperating partners.

A. Promotion of investment in general

1. Establishment of venture capital funds (VCFs) and venture capital companies (VCCs)

85. Recent experiences in the United States, Europe and elsewhere suggest that venture capital funds (VCFs) and venture capital companies (VCCs) can make important contributions to enhancing the quality of investment in small and medium-scale enterprises (SMEs), improve the quality of their management, and enhance technology transfer.

86. Even though venture capital activities date well back into history (the Hanseatic League, the English Merchant Ventures and Chartered Companies, and the period of the Italian City State), their resurgence in recent years has bypassed the developing countries. As the name implies, venture capital is high-risk capital. 23/ It generally involves the provision of equity or quasi-equity capital to SMEs in cases of business start-ups or to take advantage of special opportunities in terms of promoting a new technology, improving management, or providing the necessary resources to improve the cash flow or meet the working capital requirements of SMEs with high growth potential. The International Finance Corporation has played an important role in catalysing the growth of venture capital companies in developing countries. For example, with its assistance, two such companies have been established in Africa in Côte d'Ivoire and Kenya.

87. While entrepreneurial spirit is not lacking in Africa, managerial ability, including the capacity to adapt to new technology, is low. The services which VCCs can provide are, therefore, highly relevant to the African investment environment of today. This is particularly so because of the traditional reluctance of banks to support such projects.

88. Encouraging VCC operations is therefore one way in which Governments can intervene to promote investment. Governments of the OECD countries have employed various fiscal measures to this end, such as tax deductions for capital subscribed for venture purposes and tax relief on dividend payments, reduced rates of capital gains taxes, reduction of company taxes, facility to set off losses from one investment against another, and tighter tax rules on alternative forms of investment. 24/

89. In addition, African Governments, with the concurrence of their development partners, could agree that small amounts of grants from OECD and other donor countries be set aside for the creation of VCFs to support VCC operations in African SMEs. This way, part of the substantial resources which now flow into the public sector can be directed to Africa's private sector.

2. Country growth funds

90. Country growth funds also provide an additional innovative approach to mobilization of savings for investment in Africa. With the general climate of deregulation and relatively free foreign exchange policies, there is a growing trend of return of flight capital. In addition, many Africans working abroad may wish to invest in their home countries but are constrained by lack of in-depth knowledge of the opportunities. Country growth funds which operate on lines similar to unit trusts can provide avenues for mobilizing savings for investment on a country-specific basis.

3. Merchant banks

91. Merchant banks basically provide the important service of bringing corporate entities into contact with medium- to long-term investors. In the process, they provide advice on a whole range of related matters. Since commercial banks in Africa are reluctant to engage in corporate lending, the establishment of merchant banks can fill an important vacuum in the range of services required by businesses. So far, only a few countries have merchant banks. There is therefore substantial scope for development in this area.

4. Stock exchanges and capital markets

92. Stock exchanges are the traditional market place for trade in long-term funds, equities, debentures and bonds. However, there are not many stock exchanges in Africa, and only a few sub-Saharan African countries have them. Of those that do, only South Africa has reached an internationally acceptable level. The others are at various levels of development, volume is thin and the range of debt instruments traded is very limited. Thus, African countries need to develop stock exchanges as a necessary part of the range of capital market institutions to support market-based approaches to investment.

93. In the beginning, progress may be slow. However, flexibility in matters such as classification of stocks, the encouragement of secondary markets, and over-the-counter (OTC) operations can help gradually accustom traders and institution-builders alike to the complexities of managing efficient capital markets.

5. Joint enterprises and management contracts

94. Joint enterprises provide good vehicles for FDI flows and technology transfer. Where these are not possible, management contracts can help enterprises overcome their difficulties. Although there has been much discussion on the merits of joint enterprises, not many new joint enterprises have been developed in many countries. In view, particularly, of the important access which joint enterprises offer to technology, R & D, strategic partnerships, management know-how and markets, there will be a need for African countries to encourage their entrepreneurs to develop joint partnership relationships, especially with foreign counterparts. It must be stressed that the real activity must come from an interaction between private sectors, not Governments. Governments can help only by providing the appropriate environment.

6. Networking and cooperation in R & D

95. With regard to technology acquisition, adaptation and absorption, African countries may need to devote more attention to networking among various research institutions to develop joint programmes or cooperate and share results wherever possible. In view of the limited resources continent-wide, closer collaboration in planning, execution, verification and sharing of results could lead to savings. Similarly, regional and subregional centres of excellence could entail substantial savings.

7. Commercialization of existing research results

96. There is a surprisingly large body of interesting research results in African research institutions which are not commercialized. A number of food research institutes have developed simple ways of processing and preserving some of Africa's traditional foodstuffs, but these have not gone beyond the research and test stages. This is partly because there is very little contact between the scientific and the business communities. African countries could, therefore, reap substantial benefits from encouraging such contacts and assisting the business community to translate research results into marketable products.

8. Market-oriented approaches to acquisition and diffusion of technology

97. Evidence has shown that market-oriented approaches to acquisition of technology are highly productive. Cooperation between enterprises, joint ventures, strategic arrangements, direct purchase of appropriate capital equipment, licences and similar arrangements, and hiring of consultants and specialists are important techniques in this connection. They create an obligation on the supplier to deliver the appropriate service or equipment. At the same time, the buyer is bound to make maximum use of the service or equipment. African Governments can encourage and support their enterprise sectors in this direction.

98. Governments may use their leverage, e.g. market potential, to support any negotiations. However, initiatives and transactions between the two enterprises directly concerned will most likely yield the best results. This, however, does not detract from the need for Governments to cooperate at the multilateral level on various aspects of technology transfer.

B. Promoting foreign direct investment

99. There is wide appreciation in Africa that FDI can play a crucial role in accelerating growth and development. South-East Asia and China set an example in this regard. A conducive, enabling environment is generally recognized as a prerequisite for attracting FDI, but by itself it may not be sufficient to lead to substantial increased flows of FDI to Africa.

100. More direct policies and actions may, therefore, be required to spur large flows of FDI to Africa. Given the broad consensus among African countries and their partners in development that FDI can act as a catalyst to ensure sustained export-oriented growth in African countries, the international community needs to consider what special measures can be taken to provide the necessary incentives to make Africa at least as attractive a location for FDI flows as other regions. A partnership framework among donors, international financial institutions and TNCs can help to create the conditions necessary to achieve this end. Certain initiatives in this direction have already been launched by the International Finance Corporation, UNDP and the African Development Bank. These need to be widened. Donor Governments could, for example, provide TNCs and other companies in their respective countries with incentives such as tax concessions, interest subsidies from ODA, investment guarantees and other inducements for long-term FDI in African commercial undertakings. Host countries, in turn, could make commitments of a specific nature for micro-level FDI, while the international financial institutions could provide the resources for improving infrastructure and labour-market skills to make possible the success of specific foreign direct investments. All this implies designing partnership packages for FDI at the macro-level.

101. An approach on the lines suggested above is a policy issue for Governments and international financial institutions to consider with a view to meeting the particular developmental needs of the African continent. It must be addressed if a serious attempt is to be made by the international community to encourage FDI to African countries.

Notes

1/ It is estimated that the population of sub-Saharan Africa will double to 1 billion by 2013.

2/ UNCTAD, "Country and regional experiences in attracting foreign direct investment for development", E/C.10/1994/7, January 1994.

3/ Foreign Investment and Trade Linkages in Developing Countries, United Nations, NY, 1993. ST/CTC/154. See also table 4.2, p. 45 of World Investment Report, 1993: Transnational Corporations and Integrated International Production (New York, United Nations, 1993).

4/ World Investment Report, 1993: Transnational Corporations and Integrated International Production.

5/ Uganda represents a striking example of the asymmetrical nature of the media's projection of negative and positive information. The successful efforts in the last six years to improve the situation in the country, including economic recovery and restoration of respect for human dignity, do not receive the same coverage as the negative events in the preceding period.

6/ Niles E. Helmholt, Tina West, and Benjamin H. Hardy, "Private investment and African economic policy" in Robert J. Berg and Jennifer Seymour Whitaker, Strategies for African Development, University of California Press, 1986.

7/ "Investment climate and private sector assessment of the Kingdom of Swaziland", prepared under AFR-0438-C-00-5007-00 for US AID DIMPEX Associates, Inc., July 1987.

8/ For instance, the minimum amount of start-up capital required to qualify for an incentive package is often too high for local entrepreneurs; provision of free, serviced sites is generally exclusively for foreign investors; tax holdings are also granted exclusively to foreigners; and, governments often go into partnerships with foreign firms - with the government bearing the riskier part of the investment - while locals do not have such opportunities.

9/ This is particularly important for FDI directed at joint ventures. To increase this portion of FDI significantly, domestic investment will need to increase as a precondition.

10/ The World Bank, World Development Report, 1987.

11/ The World Bank, Adjustment in Africa: Reforms, results and the road ahead, November 1993.

12/ For experiences with policy reforms in developing countries, see Trade and Development Report, 1992.

13/ See for example, John M. Page Jr. and Peter A. Petri, "Productivity change and strategic growth policy in the Asian miracle", paper prepared for the Global Coalition for Africa, 1993. Also World Bank Policy Research Bulletin, August-October, 1993, vol. 4, No. 4, for a summary of the main findings.

14/ World Bank Policy Research Bulletin, August-October 1993, vol. 4, No. 4.

15/ Sources: See, for example, John M. Page Jr. and Peter Petri, op. cit.; UNDP/World Bank, African Development Indicators, United Nations Development Programme, New York, N.Y.; World Bank: Trends in Developing Economies, 1990, World Bank, Washington, D.C.

16/ For example, see the conclusions of the Ad Hoc Working Group on Investment and Financial Flows; Non-Debt-creating Finance for Development; New Mechanisms for increasing Investment and Financial Flows (TD/B/40(1)/12, TD/B/WG.1/8), UNCTAD, July 1993.

17/ United States Department of Commerce, Investment Climate in Foreign Countries Volume II: Africa (P.B. 86-100088), 1985.

18/ In an "Overview of foreign direct investment in Africa during the 1980s", the Programme on Transnational Corporations concludes that: "The prime constraint on attracting larger quantities of FDI to Africa at present is probably TNCs' perception of the economic and social climate. Given a lack of detailed knowledge of the different situations in individual African countries, potential investors tend to assume that all countries are equally difficult to operate within". UNCTAD, "Country and regional experiences in attracting foreign direct investment: foreign direct investment in Africa", E/C.10/1994/6.

19/ Africa's Commodity Problems: Towards a Solution (Fraser Group Report), p. 78.

20/ For a full list of the relevant, specific actions required, see TD/B/LDC/AC.1/2; TD/B/40(1)/2; TD/B/LDC/AC.1/4. (Essential elements include: appropriate and simplified documentation and procedures for transit operations; a bounding guarantee system, if required; customs seals regulations; storage facilities for goods in transit; and accreditation procedures for clearing and forwarding agents.)

21/ For detailed recent work on this subject, see the report of the Ad Hoc Working Group on the Interrelationship between Investment and Technology Transfer, TD/B/WG.5/CRP.1 of 15 December 1993.

22/ See for instance, World Investment Report.

23/ For a description of how venture capital funds function, see e.g. Richard Kitchard Kitcher, "Venture capital: A new approach to financing small and medium-scale enterprises in developing countries" in Savings and Development, No. 3, 1989-XIII.

24/ OECD, Venture Capital: Context, Development and Policies, OECD, Paris, 1986.